



Draft Minutes
Endowment Fund Investment Board Meeting
November 14, 2006

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on November 14, 2006. Chairman M. Dean Buffington called the meeting to order at 9:03 a.m. and recognized that a quorum was present.

Member's Present:

Chairman Dean Buffington
Gavin Gee
Vaughn Heinrich
Tom Kealey (*departed-1:45 p.m.*)
Susan Simmons
Richelle Sugiyama (*departed-2:00 p.m.*)
John Taylor

Staff Present:

Larry Johnson
Chris Halvorson
Andy Potter
Judy Shock

Legal Counsel:

Mike McPeck

Member's Absent:

Bill Deal
Brad Little

Guests:

Sharon Kedar, Sands Capital Management (*departed-9:55a.m.*)
John Pickett, RBC Dain (*departed 2:15 p.m.*)
Larry Schlicht, Div of Financial Mgmt (*9:16- 11:35 a.m.*)
Bob Maynard, PERSI (*11:10 a.m.- 2:45 p.m.*)
Clive Strong, Attny General (*12:15-12:38 p.m.*)
Kathy Opp, Lands Dept. (*12:05-1:30 p.m.*)
Ron Litz, Lands Dept. (*12:05-1:30 p.m.*)
Bob Helmer, Lands Dept. (*12:05-1:30 p.m.*)
Bill Reese (*12:48-2:20 p.m.*)
Michelle Soderlund (*12:50- 2:20 p.m.*)
Corrie Keller (*1:48-2:20 p.m.*)
Justice Roger Burdick (*1:48-2:20 p.m.*)

Hard copies of board materials were mailed and delivered five days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning November 7, 2006.

Investment Manager Presentation – Sands Capital Management (Sharon Kedar)

Mr. Johnson introduced Sharon Kedar of Sands Capital Management, who provided an update on her firm, which manages large cap growth equities. Booklets were distributed with the board materials.

Chairman Buffington temporarily adjourned the Endowment Fund Investment Board at 9:51 a.m. to attend Joint Land Board Meeting at the Borah Post Office building.

Chairman Buffington reconvened the meeting at 10:32 a.m. and recognized that a quorum was present.

Board Meeting Minutes: *Approved*

Mr. Heinrich made a motion that the minutes of the August 7, 2006 regular meeting be approved as submitted. The motion was seconded by Mr. Gee and approved unanimously.

Mr. Kealey made a motion that the minutes of the October 2, 2006 special meeting be approved as submitted. The motion was seconded by Mr. Gee and approved unanimously.

Update on Policies

State Insurance Fund Investment Policy – Mr. Johnson stated that a revised investment policy is required given the State Insurance Fund's planned move into International Equities. Mr. Jim Alcorn, Manager of the State Insurance Fund has made some changes to the draft policy from the board packet:

- Page 24 - Delete the first sentence under "Review and Modifications of this Statement"
- Page 25 – Delete the paragraph under "Rebalancing Guidelines"

Mr. Alcorn has accepted the recommendation of RBC Dain Rauscher and EFIB staff to hire NWQ-Tradewinds as the international manager for the SIF portfolio, benchmarked to the MSCI ACWIxUS. It was noted that the State Insurance Fund is ultimately responsible for establishing the investment policy.

Mr. Taylor made a motion to approve the policy with the aforementioned changes. The motion was seconded by Mr. Heinrich and approved unanimously.

EFIB Policy – Annual Duties Procedure – Mr. Johnson handed out a replacement page for page 30 which listed additional recipients of the endowments' annual report. He indicated that the Spending Policy decision for the Capitol Permanent Fund should be in August rather than May.

Mr. Gee made a motion to approve the Annual Duties Procedures with the revisions stated. The motion was seconded by Mr. Kealey and approved unanimously.

Spending Policy Update – Mr. Johnson distributed handouts on a new slide presentation – to be included with the previously sent board materials. Mr. Johnson was asked to provide a comparison of the current policy with the proposed options.

Mr. Taylor made a motion to recommend to the Land Board that there be no transfers from Earnings Reserves to the Permanent Funds at this time. The motion was seconded by Mr. Heinrich and approved unanimously.

Chairman Buffington requested a lunch recess at 11:50 a.m.

Clive Strong, Kathy Opp, Ron Litz and Bob Helmer arrived at 12:05 p.m.

Executive Session – Agricultural College

Mr. Gee made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345* for the purpose of discussing possible legal actions *§67-2345 (1)(f)*, or consideration of records exempt from public disclosure *§67-2345 (1 (d))*. The motion was seconded by Mr. Heinrich and approved unanimously. The board went into Executive Session at 12:15 p.m.

The roll call vote was as follows:

Chairman Dean Buffington – Aye

Tom Kealey – Aye

Richelle Sugiyama – Aye

Gavin Gee – Aye

Susan Simmons – Aye

Vaughn Heinrich – Aye

John Taylor – Aye

Guests present during Executive Session:
Larry Johnson, Clive Strong and Michael McPeek

The board ended Executive Session at 12:38 p.m. A motion to return to regular session was made by Mr. Gee, seconded by Mr. Taylor and approved unanimously.

Forecasting Timber Revenues

Mr. Johnson introduced Kathy Opp, Ron Litz, and Bob Helmer from the Department of Lands. They presented the information that was in the board packet, pages 42-50, regarding management of endowment lands and implications for cash flows to the funds. *Kathy Opp, Ron Litz and Bob Helmer departed at 1:30 p.m.*

Fund Performance and Evaluation – RBC Dain

Endowment Fund – Mr. Pickett discussed concerns with Oppenheimer and Marvin & Palmer, as noted on page 54 of the board packet. He stated that Oppenheimer has continued to struggle against its benchmark, with a portion of the underperformance originating from an underweight in utilities and lack of REIT's. In addition, the manager of the mandate is handling more assets and related compliance issues. Mr. Pickett's recommendation is to terminate Oppenheimer and to move assets and securities to Systematic Financial Management. Mr. Johnson supported the recommendation, adding that Oppenheimer has experienced some turnover at the lower levels of its organization and that the original vision for the fund was to have only one Mid-Cap Value Manager, rather than two.

Mr. Gee made a motion to terminate Oppenheimer Capital Management as a manager. The motion was seconded by Mr. Taylor and approved unanimously.

Mr. Pickett recommended that Marvin & Palmer be kept on the watch list. The board discussed their concerns with Marvin & Palmer and requested RBC Dain to look at alternatives for international growth with other managers.

Mr. Kealey departed at 1:45 p.m.

Judges' Retirement Fund - Mr. Pickett stated that the current status of this fund is satisfactory. He indicated that at the conclusion of the asset liability study under review, based upon the actuarial valuation of June 30, 2006, it is recommended that the current asset allocation and the overall health of this fund be reviewed. He stated there are no recommendations or changes at this time.

Judges' Retirement Fund

Chairman Buffington introduced Michelle Soderlund, actuary for the Judges' Retirement Fund. Ms. Soderlund discussed the latest actuarial valuation and changes from the previous valuation.

Justice Burdick and Corrie Keller arrived at 1:48 p.m.

Ms. Simmons inquired if board members are responsible for contribution rates for the Judges' Fund. Deputy Attorney McPeek stated that the EFIB only acts as an investment manager of the JRF and that the actuarial information is only for EFIB's awareness.

Ms. Sugiyama departed at 2:00 p.m.

Mr. Keller indicated that the Judges' Fund has been speaking with PERSI and exploring the options of having them assume responsibility for investment and administration of the Fund. Mr. Maynard stated that the biggest concern is with regard to assuming responsibility for administering the liabilities. Mr. Keller stated the Fund is not ready to proceed with further work on the asset/liability study.

Mr. Pickett departed at 2:15 p.m.

Mr. Keller, Ms. Soderlund and Justice Burdick departed at 2:20 p.m.

Update on Policies (continued)

Path Forward on Asset Mix - Mr. Johnson passed out an additional handout showing the comments of EFIB staff, RBC Dain Rauscher, and three other consulting firms on the questions included in the briefing material. EFIB staff will work with RBC to narrow in on changes to the asset mix which will yield the largest improvement in risk/return.

Mr. Maynard departed at 2:45 p.m.

Escheat Legislation

Mr. Johnson handed out proposed legislation, drafted by the Tax Commission, to ensure certain unclaimed funds start flowing again to the Public School Endowment. There is no anticipated opposition. Mr. Johnson indicated that an additional bill to reclaim \$232,000 in missing funds will also be drafted. Deputy Attorney General McPeck asked that the name on line 26, Public School Income Endowment Fund, be adjusted to the title in the Constitution.

Mr. Taylor made a motion to approve the new legislation and ask Senator Little and Representative Deal to carry the legislation. The motion was seconded by Mr. Heinrich and approved unanimously.

EFIB Staff Reports

The board briefly reviewed the reports in the board packet, pages 120-124. Mr. Johnson indicated that there is no cash flow threat to any of the endowments.

Executive Session

Mr. Taylor made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345* for the purpose of discussing personnel issues *§67-2345 (1)(b)*. The motion was seconded by Mr. Taylor and approved unanimously. The board went into Executive Session at 3:00 p.m. Item currently scheduled for Executive Session discussion include: Performance/salary review update regarding EFIB employees

The roll call vote was as follows:
Chairman Dean Buffington – Aye
Gavin Gee – Aye
Susan Simmons – Aye
Vaughn Heinrich – Aye
John Taylor – Aye

The board ended Executive Session at 3:08 p.m. A motion to return to regular session was made by Mr. Gee, seconded by Mr. Heinrich and approved unanimously.

Mr. Taylor made a motion to approve a retention bonus of \$618 for Andy Potter, effective for the second half of the fiscal year. The motion was seconded by Mr. Heinrich and approved unanimously.

Mr. Taylor made a motion to approve a 3% salary increase for Chris Halvorson, effective January 1, 2007. The motion was seconded by Mr. Heinrich and approved unanimously.

Adjournment

There being no further business to come before the Board, Mr. Gee made a motion to adjourn, which was seconded by Ms. Simmons, and passed unanimously by members present. The meeting adjourned at 3:10 p.m.